

---

CONTRACT COMPLIANCE AUDIT  
HEALTHCARE SERVICES, INC.



# PRELIMINARY AUDIT REPORT

Prepared by:

California Department of Corrections and Rehabilitation  
Office of Audits and Compliance  
Audits Branch

---

July 2008

---

# HEALTHCARE SERVICES, INC.

## CONTRACT NUMBERS P05.0024 and P06.0040

---

Audits Branch

Timothy Adams, Supervising Management Auditor

Francis Cailles, Staff Management Auditor

Rowena Dorsey, Associate Management Auditor

Helen Schmalz, Associate Management Auditor

# TABLE OF CONTENTS

---

	<u>PAGE</u>
AUDITOR'S REPORT	
EXECUTIVE SUMMARY .....	1
BACKGROUND .....	5
FINDINGS AND RECOMMENDATIONS	
FINDING 1: Staff Benefits Overpayment.....	6
FINDING 2: Overpaid Operating Expenses for Contract P05.0024.....	8
FINDING 3: Operating Expenses Exceeded Reported Costs for Contract P06.0040 .....	10
FINDING 4: Staff Salaries Underpayment.....	15
FINDING 5: Indirect Cost Adjustment.....	18
FINDING 6: Profit Fee Adjustment .....	19
FINDING 7: Internal Control Weaknesses-Payroll and Timekeeping .....	20
SCHEDULE 1 .....	23
SCHEDULE 2 .....	24
SCHEDULE 3 .....	25
GLOSSARY .....	26

**OFFICE OF AUDITS AND COMPLIANCE**

1515 S Street, Sacramento, CA 95814  
P.O. Box 942883  
Sacramento, CA 94283-0001



## AUDITOR'S REPORT

Don Sainz, Chief Operating Officer  
Healthcare Services, Inc.  
151 Kalmus Drive, Suite K  
Costa Mesa, CA 92626

Dear Mr. Sainz:

The California Department of Corrections and Rehabilitation's (CDCR), Office of Audits and Compliance, Audits Branch, completed a fiscal contract compliance audit of contract numbers P05.0024 and P06.0040 between the CDCR and Healthcare Services, Inc. (Healthcare Services). Under the terms of the agreement, the contractor agreed to operate a Residential Multi-Service Center that provides homeless and at risk parolees with room and board, substance abuse treatment, relapse prevention, literacy training, anger management classes, employment development, and counseling. The costs for these services were not to exceed the contract amounts listed in the table below.

<u>Contract Number</u>	<u>Contract Term</u>	<u>Contract Amount</u>
P05.0024	January 1, 2006-June 30, 2009	\$7,827,180
P06.0040	September 1, 2006-June 30, 2009	\$2,415,762

The Audits Branch conducted the audit in accordance with Generally Accepted Governmental Auditing Standards, including tests of controls and other such auditing procedures considered necessary under the circumstances.

The scope of the audit was limited to financial and selected compliance activities for March 1, 2006 through April 30, 2007.

The audit fieldwork was conducted from July 16, 2007 through October 31, 2007.

The specific objectives of the audit were to determine whether:

- Expenses claimed were for actual program costs, supported by appropriate source documentation, and consistent with the CDCR's Line Item Budget Guide's (LIBG) cost principles.
- Healthcare Services complied with the terms and conditions of contract numbers P05.0024 and P06.0040.

The procedures performed in the audit included:

- A review of the contracts' fiscal provisions and related accounting and program records, as well as, pertinent laws, rules, and regulations.
- Performance of tests to provide reasonable assurance that Healthcare Services complied with the fiscal contract provisions and tests of payment propriety as deemed necessary by the Audits Branch.

The audit identified seven findings. The first six are monetary findings consisting of staff benefits overpayment, overpaid operating expenses for contract number P05.0024, operating expenses exceeded the reported costs for contract number P06.0040, staff salaries underpayment, indirect cost adjustment, and profit fee adjustment. The Audits Branch recommends a total cost recovery of \$22,504. The seventh finding is about internal control weaknesses in payroll and timekeeping. Because the audit was limited to selected test periods and fiscal transactions, the Audits Branch does not express an opinion on the contractor's internal controls or contract compliance as a whole.

RICHARD C. KRUPP, Ph.D.  
Assistant Secretary  
Office of Audits and Compliance

October 31, 2007 (last date of audit work)

## EXECUTIVE SUMMARY

---

On two separate occasions, the CDCR contracted with Healthcare Services to operate a Residential Multi-Service Center (RMSC) in San Diego, California. A RMSC is a CDCR program that provides homeless male and female parolees with shelter, sustenance, and life skills to transition them back into productive members of society. Under contract number P05.0024, the CDCR contracted with Healthcare Services for \$7,827,180 for the term of January 1, 2006 through June 30, 2009. However, after just five months of operation, the contract was terminated on July 15, 2006. A new contract, P06.0040, was put out for bid, and Healthcare Services was awarded the contract. The new facility is located at 2456 E Street, San Diego, California. The contract is for \$2,415,762 with a term of September 1, 2006 through June 30, 2009.

Under contract number P05.0024, the Audits Branch audited Healthcare Services' RMSC transactions for the period of March 1, 2006 through July 15, 2006. During the five-month period, the CDCR paid Healthcare Services \$128,918.

Under contract number P06.0040, the Audits Branch audited Healthcare Services' RMSC transactions for the period of November 1, 2006 through April 30, 2007. During the six-month audit period, the CDCR paid Healthcare Services \$322,159.

The audits of the two contracts identified seven findings. The first six are monetary findings consisting of staff benefits overpayment, overpaid operating expenses for contract number P05.0024, operating expenses exceeded reported costs for contract number P06.0040, staff salaries underpayment, indirect cost adjustment, and profit fee adjustment. The Audits Branch recommends a total cost recovery of \$22,504. The seventh finding is non-monetary dealing with Healthcare Services' internal control weaknesses in payroll and timekeeping. The table below summarizes the costs.

### Summary of Unallowable Costs

FINDING	Contract Number		TOTAL
	P05.0024	P06.0040	
1 Staff Benefits Overpayment	\$2,314	10,694	13,008
2 Overpaid Operating Expenses	8,248		8,248
3 Operating Expenses Exceeded Reported Costs		6,936	6,936
4 Staff Salaries Underpayment	(320)	(9,058)	(9,378)
5 Indirect Cost Adjustment	2,150	600	2,750
6 Profit Fee Adjustment	511	429	940
7 Deficiency in Handling Time Records	0	0	0
<b>TOTAL UNALLOWABLE COSTS</b>	<b>\$12,903</b>	<b>\$9,601</b>	<b>\$22,504</b>

The Findings and Recommendations section of the audit report provides the detailed explanation of the findings.

## SUMMARY OF FINDINGS

### **FINDING 1: Staff Benefits Overpayment**

The CDCR overpaid Healthcare Services \$13,008 for staff benefits for the two contracts, as illustrated in the table below. The CDCR paid Healthcare Services \$9,338 for staff benefits for contract number P05.0024 during fiscal years (FY) 2005/06 and 2006/07. The Audits Branch's calculations of the benefits allocable to the RMSC program should have been \$7,024, resulting in an overpayment of \$2,314. The CDCR paid Healthcare Services \$30,636 in benefits for contract number P06.0040. The staff benefits for FY 2006/07 should have been \$19,942, resulting in an overpayment of \$10,694.

Contract Number	Review Months	FY	Overpayment
P05.0024	03/06 – 06/06 07/06	05/06	\$1,937
		06/07	377
		<b>Subtotal</b>	<b>\$2,314</b>
P06.0040	12/06 – 04/07	06/07	10,694
		<b>Total</b>	<b><u>\$13,008</u></b>

Healthcare Services charged the CDCR for unallowable expenses, such as food and T-shirts for the employees, medical insurance that should have been charged to the employees but was charged to the CDCR, workers' compensation insurance overcharges, and payroll tax overcharges.

### **FINDING 2: Overpaid Operating Expenses for Contract P05.0024**

The CDCR overpaid Healthcare Services \$8,248 for operating expenses on contract number P05.0024. The amount consists of \$8,880 overpayment for March 1, 2006 through June 30, 2006, and a \$632 underpayment for July 2006.

The Audits Branch identified seven line items, which exceeded their allocated costs. For March 1 to June 30, 2006, Healthcare Services charged the CDCR \$58,044 for the seven line items. The total allocated expenses were \$49,165, resulting in an overpayment of \$8,880.

For July 2006, Healthcare Services charged the CDCR \$5,790, but the total allocated expenses were \$6,422, resulting in an underpayment of \$632.

### **FINDING 3: Operating Expenses Exceeded Reported Costs for Contract P06.0040**

The CDCR overpaid Healthcare Services \$6,936 in operating expenses.

The Audits Branch identified two Lighthouse-Ohana accounts with unallowable expenses totaling \$529 and four line items that were overpaid. The CDCR was billed

\$169,474 for operating costs. However, the total allowable operating costs was only \$162,538, resulting in an overpayment of \$6,936.

**FINDING 4: Staff Salaries Underpayment**

Healthcare Services was underpaid \$9,378 in salaries for contract numbers P05.0024 and P06.0040, broken down as follows:

Contract No.	FY	Salaries	Over/Under Payment
P05.0024	2005/06	(\$727)	
	2006/07	407	
Subtotal			(\$320)
P06.0040	2006/07	(\$9,058)	
Subtotal			(9,058)
Total			(\$9,378)

For contract number P05.0024, the CDCR underpaid Healthcare Services \$727 in employees' salaries for the FY 2005/06, and overpaid the employees' salaries by \$407 for the FY 2006/07; when the underpayment and overpayment were combined, it resulted an underpayment of \$320 ((727) + 407).

For contract number P06.0040, which only covered the 2006/07 FY, the CDCR underpaid Healthcare Services \$9,058 for employees' salaries.

**FINDING 5: Indirect Cost Adjustment**

The CDCR paid Healthcare Services for indirect costs based on a percentage of total direct costs. In Findings 1 through 4, the CDCR made adjustments to the allowable direct costs, resulting in a \$2,750 reduction of associated indirect costs.

**FINDING 6: Profit Fee Adjustment**

Both contract numbers P05.0024 and P06.0040 included a 5 percent service fee of the direct costs. The CDCR paid Healthcare Services a service fee of \$19,501. As a result of Findings 1–5, the profit fee was recalculated and was adjusted to \$18,561, resulting in an overpayment of \$940.

**FINDING 7: Internal Control Weaknesses – Payroll and Timekeeping**

During the course of the audit fieldwork, the following deficiencies were noted in the areas of employee payroll and timekeeping:

- The recording of employees' job titles is inconsistent.
- Salaried employees worked less than the required number of hours for the month.



- Sick time was not properly documented on the Payroll Journal.
- There is lack of supervisory review, as evidenced by:
  1. Errors in recording total time worked.
  2. Missing signatures on timesheets.
  3. Employees recorded the total daily hours worked, rather than recording the start and end time to properly account for the total hours worked.
  4. An employee prepared timesheets for other employees.

## BACKGROUND

---

The CDCR contracted with Healthcare Services on two separate occasions to operate a RMSC in San Diego, California.

The first contract number P05.0024, was for 106 RMSC beds for the period of January 1, 2006 through June 30, 2009, totaling \$7,827,180. Healthcare Services operated the program from a facility called "The Lighthouse", located at 542 14th Street, San Diego, California. The facility's capacity was not fully utilized (see table below). The contract was canceled in July 2006, and a new contract number P06.0040, was put out for bid.

Healthcare Services was awarded the new contract. Under contract P06.0040, Healthcare Services agreed to operate a 36-bed RMSC facility from September 1, 2006 though June 30, 2009 at a maximum cost of \$2,415,762. The facility is located at 2546 E Street, San Diego, California, and is known as "The Lighthouse-Ohana."

The table below summarizes the actual occupancy rates, and the cost per bed-day for the two contracts:

Contract Number and Period Audited	Capacity	Actual Bed-Days	Occupancy Rate	Amount Paid	Cost per Bed-Day
P05.0024 May 2006 – Jul 2006	16,218	916	5.6%	\$128,918	\$140.74
P06.0040 Dec 2006 – Apr 2007	5,436	3,769	69.3%	\$322,159	\$85.48

The two contracts have the same purpose, which is to provide homeless and at risk male and female parolees with room and board, substance abuse treatment, relapse prevention, 12-step (Alcoholic Anonymous and Narcotics Anonymous) meetings, literacy training, anger management, employment development, preparation and placement services, individual and group counseling, and life skills. Participants will be involved for a minimum of 180 days and up to one year, with a 90-day after care component. Through the use of qualified counselors and casework management treatment phasing, the goal is for the parolee to successfully transition to independent living.

# FINDINGS AND RECOMMENDATIONS

## FINDING 1: Staff Benefits Overpayment

The CDCR overpaid Healthcare Services \$13,008 in staff benefits for contract numbers P05.0024 and P06.0040, combined.

For contract number P05.0024, the CDCR overpaid Healthcare Services \$2,314. The CDCR paid \$9,338 in staff benefits for the FYs 2005/06 and 2006/07, but the amount of benefits allocable to the RMSC contract was only \$7,024.

### Staff Benefits Overpayment – Contract Number P05.0024

	a	b	c	d	e	f
Staff Benefits	Reported Benefits Costs	Adjustments	Adjusted Benefits Costs	Allocation to RMSC*	Amount Paid by CDCR	Over Payment
<b>FY 2005/06</b>			a + /- b	<b>22.73%</b>		e - d
Medical	11,883	(1,638)	10,245	2,329		
Workers Comp.	9,424	(27)	9,397	2,136		
Payroll Taxes	12,941	(3,529)	9,412	2,139		
Employee Incentives	662	(662)	0	0		
<b>Subtotal</b>	<b>34,910</b>	<b>(5,856)</b>	<b>29,054</b>	<b>6,604</b>	<b>8,541</b>	<b>1,937</b>
<b>FY 2006/07</b>				<b>11.96%</b>		
Medical	3,601	(2,642)	959	115		
Workers Comp.	2,582	(1,316)	1,266	151		
Payroll Taxes	3,507	(2,222)	1,285	154		
Employee Incentives						
<b>Subtotal</b>	<b>9,690</b>	<b>(6,180)</b>	<b>3,510</b>	<b>420</b>	<b>797</b>	<b>377</b>
<b>TOTAL</b>	<b>44,600</b>	<b>(12,036)</b>	<b>32,564</b>	<b>7,024</b>	<b>9,338</b>	<b>2,314</b>

**\*Note:** See Finding 2 for more details on the allocation method.

For contract number P06.0040, Healthcare Services' financial records show that \$21,372 in employees' staff benefits was paid for November 2006 through April 2007. However, the Audits Branch's review of the staff benefits' records determined that \$1,430 of the \$21,372 were unallowable costs; therefore, the Audits Branch adjusted the costs to \$19,942 (21,372 – 1,430). During the six-month period, the CDCR paid Healthcare Services a total of \$30,636, resulting in Healthcare Services being overpaid \$10,694 (30,656 – 19,942).

### Staff Benefits Overpayment – Contract Number P06.0040

	a	b	c	d	e
Staff Benefits	Reported Benefits Costs	Adjustments	Adjusted Benefits Costs	Amount Paid by CDCR	Over Payment
<b>P06.0040 – FY 06/07</b>			<b>a +/- b</b>		<b>d - c</b>
Medical	5,712	(1,224)	4,488		
Workers Comp.	3,259	1,136	4,395		
Payroll Taxes	11,438	(379)	11,059		
Employee Incentives	963	(963)	0		
<b>TOTAL</b>	<b>21,372</b>	<b>(1,430)</b>	<b>19,942</b>	<b>30,636</b>	<b>10,694</b>

The adjustments in the tables above were for (a) unallowable charges, such as food and T-shirts for the employees, (b) employee-paid medical costs that were charged to CDCR, (c) overcharges in workers compensation insurance, (d) overpayments for payroll taxes, and (e) benefits related to the staff salary adjustments in Finding 4. As shown in the table below, the adjustments resulted in an overpayment of \$13,008.

	a	b	c	d	e	f
Contract	Reported Benefits Costs	Adjustments	Adjusted Benefits Costs	Allowable Costs to RMSC	Amount Paid by CDCR	Over Payment
			<b>a +/- b</b>			<b>e - d</b>
<b>P05.0024</b>	<b>44,600</b>	<b>(12,036)</b>	<b>32,564</b>	<b>7,024</b>	<b>9,338</b>	<b>2,314</b>
<b>P06.0040</b>	<b>21,372</b>	<b>(1,430)</b>	<b>19,942</b>	<b>19,942</b>	<b>30,636</b>	<b>10,694</b>
<b>TOTAL</b>	<b>65,972</b>	<b>13,466</b>	<b>52,506</b>	<b>26,966</b>	<b>39,974</b>	<b>13,008</b>

### CRITERIA:

LIBG (October 2002), page 2, Actual and Allowable Costs, states: “Allowable costs for a contract shall be limited to those expenditures which are: (1) in conformance with the approved contract budget and have specific prior approval when required; and (2) for goods and services necessary to the project's operation at the time the costs are incurred.”

LIBG (October 2002), page 3, Staff Benefits, states: “Actual costs for staff benefits will be provided based on a percentage of total staff salaries. A CDC audit will be performed on actual costs. The CDC has determined a percentage for staff benefits of 28% for industrial non-represented employees, however, this percentage is strictly a guide to follow; there is no established limit.”

LIBG (October 2002), page 10, Unallowable Cost–Entertainment, states: “Costs of amusements, social activities and incidental such as meals, beverages, lodgings, rentals, transportation and gratuities are not allowable, unless such activity is specifically required as part of the project scope.”

LIBG (October 2002), pages 10 through 11, Unallowable Costs, stated that costs associated with bonuses and/or gifts are unallowable.

## RECOMMENDATION:

- Reimburse the CDCR \$13,008 for overpaid staff benefits.
- Ensure that staff benefits claimed is within budget.
- Restrict charges to contract agreement.

## FINDING 2: Overpaid Operating Expenses for Contract P05.0024

The CDCR overpaid Healthcare Services \$8,248 for operating expenses related to contract number P05.0024.

Per contract number P05.0024, Healthcare Services operated Contract P05.0024 from a 106 bed facility known as “The Lighthouse,” located at 14th and Market Street in San Diego, CA. Healthcare Services contracted with the Division of Adult Parole Operations (DAPO) for 106 RMSC beds, and at the same time subcontracted with Mental Health Systems to provide Drug Treatment Furlough (DTF) and Long Term Residential (LTR) beds for the Division of Addiction and Recovery Services.

Healthcare Services had one general ledger for both the RMSC and DTF/LTR programs. Except for food, Healthcare Services allocated costs to the RMSC program based on available capacity. The RMSC program was charged \$8 per day for each participant for food.

To calculate the correct operating expenses allocable to the RMSC program, the Audits Branch used the following basis:

Period	Basis for Allocation	
	RMSC Actual Bed Days (for Variable Costs)	RMSC Capacity (for Fixed Costs)
March – June 2006	7.74%	22.73%
July 2006	2.63%	11.96%

**Bed Days:** Calculated by dividing RMSC actual bed days by the facility’s total actual bed days. The Audits Branch used the actual bed days percentage to allocate variable costs, such as food.

**Capacity:** Calculated by dividing RMSC available beds by the facility’s total available beds. The Audits Branch used Capacity as the basis for allocating fixed costs, including rent, staff salaries, benefits, insurance, office supplies, utilities, and indirect cost.

The Audits Branch applied the above percentages to compute the costs allocable to the RMSC program listed in the table below. For example, Healthcare Services’ actual March – June 2006 rent expense for the entire Lighthouse facility totaled \$111,522. Since rent is a fixed cost, the Audits Branch used capacity to allocate 22.73 percent, or \$25,349 (\$111,522 x 22.73 percent) of rent expense to the RMSC program.

Operating Expense Overpayment  
Contract P05.0024

<u>Line Item</u>	<u>March-June 2006</u>			<u>July 2006</u>		
	<u>a</u> <u>Paid by</u> <u>CDCR</u>	<u>b</u> <u>Cost</u> <u>Allocable</u> <u>to RMSC</u>	<u>c=a-b</u> <u>Overpayment</u> <u>or</u> <u>(underpayment)</u>	<u>d</u> <u>Paid by</u> <u>CDCR</u>	<u>e</u> <u>Cost</u> <u>Allocable</u> <u>to RMSC</u>	<u>f=d-e</u> <u>Overpayment</u> <u>or</u> <u>(underpayment)</u>
Travel	0	1,453	(1,453)	0	323	(323)
Household Supplies	5,378	3,895	1,483	963	443	520
Utilities	5,188	4,830	358	337	895	(558)
Facility Lease/Rent	27,370	25,349	2,021	2,452	3,334	(882)
Maintenance Repair	4,500	1,219	3,281	242	184	58
Communications	1,277	2,970	(1,693)	125	340	(215)
Insurance	4,294	1,869	2,425	605	138	467
Supp/Expend Equipment	1,235	786	449	51	232	(181)
Non-Expend Equipment	717	1,148	(431)	97	74	23
Food Costs	<u>8,085</u>	<u>5,646</u>	<u>2,439</u>	<u>918</u>	<u>459</u>	<u>459</u>
<b>TOTAL</b>	<b>58,044</b>	<b>49,165</b>	<b>8,880</b>	<b>5,790</b>	<b>6,422</b>	<b>(632)</b>

  

<b>Total Paid by CDCR</b>	<b>\$63,834</b>
<b>Total Cost Allocable RMSC</b>	<b>\$55,587</b>
<b>Total Overpayment</b>	<b>\$8,248</b>

The Audits Branch calculated \$55,587 (49,165 + 6,422) of total operating expenses allocable to the RMSC program. The CDCR paid Healthcare Services \$63,834 (58,044 + 5,790), resulting in an overpayment of \$8,248 (8,880 - 632).

The amounts calculated by the Audits Branch for Household Supplies and Utilities include adjustments for unallowable costs charged to those two accounts. The amounts disallowed by the Audits Branch are as follows:

Household Supplies:

Starbuck's coffee for \$47. Starbuck's Coffee is unnecessary to the project's operation. According to the LIBG, "Allowable costs for a contract shall be limited to those expenditures which are...for goods and service necessary to the project's operation at the time the costs are incurred."

Rental car charges for \$69. The rental car was for Healthcare Services' Anaheim facility. This expense should have been charged to 1300-1310 W. Pearl Anaheim facility.

## Utilities:

Utilities expense for \$731. The utility bill was for an office located at 2746 Logan Ave, San Diego. The office was used specifically for the DTF/LTR program. Therefore, the costs cannot be allocated to the RMSC program.

## CRITERIA:

LIBG (October 2002), page 2, Actual and Allowable Costs, states: "Allowable costs for a contract shall be limited to those expenditures which are: (1) in conformance with the approved contract budget and have specific prior approval when required; and (2) for goods and services necessary to the project's operation at the time the costs are incurred."

LIBG (October 2002), page 4, Operating Costs, states: "Allowable operating costs are defined as necessary program expenditures, which are based on actual costs substantiated by source documentation."

LIBG (October 2002), page 11, Fiscal Audits, states: "It is the Contractor's responsibility to ensure that all expenditures claimed, including all subcontractor expenditure, are allowable costs associated in performing the contracted services...If expenditures are found to be unallowable, the Contractor's/subcontractors reimbursements may be recalculated and adjusted accordingly."

## RECOMMENDATION:

Implement policies and procedures to ensure that unallowable costs are not charged to the CDCR program.

Reimburse the CDCR \$8,248 for overpaid operating expenses.

## **FINDING 3: Operating Expenses Exceeded Reported Costs for Contract P06.0040**

Healthcare Services was overpaid \$6,936 for operating costs related to contract number P06.0040.

As illustrated in the following table, the Audits Branch computed the overpayment by comparing the amounts paid by the CDCR for each line item with each line item's allowable cost. At the completion of audit fieldwork, the Audits Branch determined that the allowable costs totaled \$146,418 after deducting the unallowable expenses. Shortly after completion of audit fieldwork, Healthcare Services provided documents supporting an additional \$16,120 in operating expenses, increasing the total allowable operating costs to \$162,538 ( $146,418 + 16,120$ ).

## Operating Expense Overpayment

	a	b	c	d = b-c	e	f = a-(d+e)
Line Item	Amount Paid by CDCR	Reported Costs	Questioned Costs	Allowable Costs Determined During the Audit	Post Audit Adjustments (added to allowable costs in column d)	Overpayment/ (Underpayment)
Travel*	\$0	\$0	\$0	\$0	\$2,000	\$(2,000)
Facility Lease\Rent	\$92,760	96,876	0	\$96,876	0	(4,116)
Maintenance Repair	7,176	4,383	0	4,383	0	2,793
Communications	2,656	4,276	464	3,812	0	(1,156)
Utilities	9,387	6,841	0	6,841	0	2,546
Insurance	10,755	3,863	0	3,863	9,721	(2,829)
Supplies/Expendable Equipment	5,537	1,258	0	1,258	1,108	3,171
Non-Expendable Equip	2,500	3,564	0	3,564	0	(1,064)
Household Supplies	5,779	7,704	0	7,704	0	(1,925)
Food	<u>32,924</u>	<u>18,182</u>	<u>65</u>	<u>18,117</u>	<u>3,291</u>	<u>11,516</u>
<b>TOTAL</b>	<b>\$169,474</b>	<b>\$146,947</b>	<b>\$529</b>	<b>\$146,418</b>	<b>\$16,120</b>	<b>\$6,936</b>

Healthcare Services operated contract P06.0040 from a facility known as "The Lighthouse – Ohana," located at 2546 E Street, San Diego, California. According to the facility's Profit and Loss statements, the total reported operating costs for December 2006 through April 2007 was \$146,947. Of that amount, the Audits Branch identified \$529 (\$464 for Communications plus \$65 for Food) in unallowable costs, which reduced the allowable costs to \$146,418. The unallowable costs are as follows:

### Communications:

There were questionable long distance telephone calls totaling \$464. The phone calls were made from telephone number (619) 501-8157. This phone is located in the message room of the Lighthouse-Ohana; the phone is designated for the RMSC participants' use. The Audits Branch selected ten telephone numbers called from the (619) 501-8157 line from the Cox Communication billing dated February 13, 2007. The Audits Branch called the numbers to determine whether the calls made were business-related, benefiting the RMSC program. The Audits Branch determined that all ten numbers called did not benefit the RMSC program. The calls were to private residences in Las Vegas, Nevada, New Orleans, Louisiana, Phoenix, Arizona, Henderson, Nevada, and Hayward, California. According to the LIBG: "Allowable costs for a contract shall be limited to those expenditures which are...for goods and service necessary to the project's operation at the time the costs are incurred." Therefore, the Audits Branch disallowed the costs associated with the personal long distance telephone calls because they were unnecessary to the project's operation.



## Food:

There were three receipts totaling \$65 for Jack in the Box expenses. The costs of food and beverages were disallowed because they were purchased for the "Lighthouse-Ohana's" staff consumption. According to the LIBG: "Costs of amusements, social activities, and incidental such as meals, beverages...are not allowable."

## Post Audit Adjustments:

After completion of audit fieldwork, Healthcare Services submitted documents for additional operating costs totaling \$26,407 that were not posted to the "Lighthouse-Ohana's" accounting records. Of that amount, the Audits Branch allowed \$16,120 as shown in the table below.

### Post Audit Adjustments

	<b>Additional Expenses Requested by Healthcare Services</b>	<b>Amount Allowed by the Audits Branch</b>	<b><u>Reason for Disallowance</u></b>
Automobile Expenses	860	860	
Advertisements	268	0	Ad was for 4/21-4/27/07, facility was fully staffed.
Supplies	248	248	
Travel Expenses	3,228	2,000	Budget is only for \$2,000.
April 07 foods costs coded in May 07	6,198	0	Amount was already paid in the May 07 invoice.
Dec 06-Apr 07 Food Cost	5,783	3,291	Calculation included May 07's cost and bed days. Audit period is Dec06-Apr07.
Property Insurance for 11/06-1/07	7,132	7,132	
Property Insurance for 2/07-4/07	<u>2,690</u>	<u>2,589</u>	\$75,795 included finance charges. Recalculated and allowed 3 months.
	26,407	16,120	

### Automobile, Advertisement, and Supplies (See Supplies/Expendable Equipment line-item)

Automobile (\$860), Advertisement (\$268), and supplies (\$248) were inadvertently charged to another contract, but should have been posted to the Lighthouse-Ohana's general ledger. The Audits Branch allowed the automobile and supplies costs of \$1,108, but disallowed the \$268 for job advertisement in the San Diego Union-Tribune for the period April 21, 2007 through April 21, 2007. The payroll records indicated that the Lighthouse-Ohana did not have any job openings for April 2007, as the facility was fully staffed.

## Travel

Allowable travel expenses of \$3,228 were not billed to the CDCR. Per the contract, travel costs were budgeted for \$2,000; thus, the Audits Branch only allowed \$2,000 of \$3,228 for travel.

## Food

The Contractor requested a total of \$11,981 (\$6,198 and \$5,783) of Food Costs to be added to the operating expenses.

The Audits Branch found that the April 2007 food cost of \$6,198 was posted in May 2007's general ledger. The cost was not included in the audit period; however, the Audits Branch determined that Healthcare Services has already included the \$6,198 in the May 2007 invoice submitted to the CDCR. Therefore, the Audits Branch is not allowing the additional \$6,198.

The second adjustment of \$5,783 is for food costs based on historical data. Healthcare Services claimed that the Lighthouse-Ohana's food expenses were posted in another facility's account. Of the \$5,783, the Audits Branch allowed \$3,291 (see calculation below). The Contractor's calculation included the May 2007 food cost of \$6,198 and bed days (see below).

The actual bed days for the audit period, December 2006 through April 2007, was only 3,769.

<u>Healthcare Services</u>				<u>Audits Branch</u>			
Food Costs per Day		5.68		Food Costs per Day		5.68	
Bed Days (Dec 06-May 07)	x	<u>5,299</u>		Bed Days (Dec 06-April 07)	x	<u>3,769</u>	
	=	30,098			=	21,408	
Less Food Cost Allowed in RMSC				Less Food Cost Allowed in RMSC			
12/2006-4/2007 Cost	-	18,117		12/2006-4/2007 Cost	-	18,117	
April 07 coded as May 07	-	<u>6,198</u>		April 07 coded May 07	-	<u>0</u>	
Food Costs Adjustment	=	<b>5,783</b>		Food Costs Adjustment	=	<b>3,291</b>	

It should be noted that during the preliminary exit conference, Healthcare Services indicated that the reported food costs included staff meals. As discussed with Healthcare Services' key personnel, costs associated with providing meals to the staff are unallowable because they are not necessary for the project's operation. The Audits Branch did not compute the unallowable amount associated with staff meals because it is not cost effective to conduct the calculation at this time.

## Property Insurance

Healthcare Services submitted two property insurance adjustments. The first adjustment was a premium totaling \$7,132. The second was an allocated premium of \$2,690 for the

period February 2007 through April 2007. Lighthouse Ohana's allocated rate was 14.22 percent and 2007's total premium was \$75,795 (which included a finance charge of \$2,957). Finance charges are unallowable costs. Therefore, the Audits Branch recalculated the premium less the finance charge and came up with a prorated cost of \$2,589. The table below shows the comparison of Healthcare Services and the Audits Branch's calculations of property insurance premium:

<u>Healthcare Services</u>		<u>Audits Branch</u>	
2007 Premium	75,795	2007 Premium	75,795
E. Street Allocation (75795 x.1422)	10,775	less Finance Charge	<u>2,957</u>
Monthly premium (10,775÷12)	898	new 2007 Premium	72,838
Premium for 2/07-04/07 (898x3)	<b>2,690</b>	E. Street Allocation (72,838 x.1422)	10,358
		Monthly Premium (10,358÷12)	863
		Premium for 2/07-04/07 (863x3)	<b>2,589</b>

The total allowable post audit adjustments to property insurance cost is \$9,721 (\$7,132 + \$2,589).

As summarized below, the CDCR paid Healthcare Services \$169,474 for operating expenses. The total allowable costs are only \$162,538. Therefore, Healthcare Services was overpaid \$6,936.

Amount Paid by CDCR		\$169,474
Allowable Costs		
Determined During Audit	\$146,418	
Post Audit Adjustments	<u>16,120</u>	<u>\$162,538</u>
Amount Overpaid by CDCR		<u>\$6,936</u>

## CRITERIA:

LIBG (October 2002), page 2, Actual and Allowable Costs, states: "Allowable costs for a contract shall be limited to those expenditures which are: (1) in conformance with the approved contract budget and have specific prior approval when required; and (2) for goods and services necessary to the project's operation at the time the costs are incurred."

LIBG (October 2002), page 11, Fiscal Audit, states "It is the Contractor's responsibility to ensure that all expenditures claimed, including all subcontractor expenditure, are allowable costs associated in performing the contracted services...If expenditures are found to be unallowable, the Contractor's/subcontractors reimbursements may be recalculated and adjusted accordingly."

LIBG (October 2002), page 4, Operating Costs, states: "Allowable operating costs are defined as necessary program expenditures, which are based on actual costs substantiated by source documentation."

LIBG (October 2002), page 5, Insurance, states: "Reimbursement for required insurance will be based on actual costs incurred."

#### **RECOMMENDATION:**

Implement policies and procedures to ensure that unallowable costs are not charged to the CDCR program and that the RMSC participants do not have access to long distance calls.

Reimburse CDCR \$6,936 for overpaid operating expenses.

#### **FINDING 4: Staff Salary Underpayment**

The CDCR underpaid Healthcare Services \$9,378 for salaries. Healthcare Services billed the CDCR \$116,712, but the Audits Branch determined that the amount allowable to the RMSC program was \$126,090; \$29,501 for contract number P05.0024, and \$96,590 for contract number P06.0040.

For contract number P06.0040, the Audits Branch's original audit period was December 2006 through April 2007; however, Healthcare Services requested that the November 2006 costs be included because November 2006 was the month they actually started operating the RMSC on E Street.

The Audits Branch calculated the correct amount of salary allocable to the RMSC program by: 1) deducting the unallowable amounts from each budgeted position's actual salary, and 2) comparing the adjusted salary to the budgeted monthly salary. The Audits Branch used the **lesser** of the two.

The Audits Branch also deducted salaries that were not in the proposed budget, overtime pay, sick and administrative leave because these items were either listed in the LIBG as unallowable, or in the case of sick and administrative leave, the employee was not entitled to sick and administrative leave based on her employment start date with the RMSC.

## ADJUSTMENTS

Position	Actual Salary	Amount in Excess of Contract Salary	Salary not in Proposed Budget	Overtime Pay	Sick/ Admin Leave	Healthcare Services Adjustments (Nov. 2006)	Total Adjustments	Adjusted Salary
	a	b	c	d	e	f	g	h
							(Totals of b through f)	(a – or + g)
<b>A. P05.0024 – FY 05/06</b>								
Facility Manager	\$16,667	(\$2.72)					(\$2.72)	\$16,664
Counseling Supervisor	13,750							13,750
Counselors	64,909	(1,396)					(1,396)	63,513
Monitors	16,235							16,235
Secretary Admin/Asst	10,525			(\$67)			(67)	10,458
Cook	0							
Temporary Help	0							
Consultants	950		(\$950)				(950)	0
<b>Subtotal</b>	<b>\$123,036</b>	<b>(\$1,399)</b>	<b>(\$950)</b>	<b>(\$67)</b>			<b>(\$2,416)</b>	<b>\$120,620</b>
<b>B. P05.0024 – 06/07</b>								
Facility Manager	\$4,167	(\$2,104)					(\$2,104)	2,063
Counseling Supervisor	3,437	(885)					(885)	2,552
Counselors	21,725	(13,977)					(13,977)	7,748
Monitors	4,675	(899)					(899)	3,776
Secretary Admin/Asst	1,276							1,276
Cook								
Temporary Help								
Consultants								
<b>Subtotal</b>	<b>\$35,280</b>	<b>(\$17,865)</b>					<b>(\$17,865)</b>	<b>\$17,415</b>
<b>C. P06.0040</b>								
Facility Manager	\$23,100					\$2,100	\$2,100	\$25,200
Counseling Supervisor	10,257	(\$477)				1,558	\$1,081	11,338
Counselors	27,466	(1,886)		(\$492)		400	(1,978)	25,488
Monitors	24,608	(14)		(504)		2,864	2,346	26,954
Secretary Admin/Asst	3,000				(\$1,395)		(1,395)	1,605
Cook	6,818	(267)		(546)			(813)	6,005
Temporary Help	0							
Consultants	0							
<b>Subtotal</b>	<b>\$95,249</b>	<b>(\$2,644)</b>		<b>(\$1,542)</b>	<b>(\$1,395)</b>	<b>\$6,922</b>	<b>\$1,341</b>	<b>\$96,590</b>
<b>Totals of A, B, &amp; C</b>	<b>\$253,565</b>	<b>(\$21,908)</b>	<b>(\$950)</b>	<b>(\$1,609)</b>	<b>(\$1,395)</b>	<b>\$6,922</b>	<b>(\$18,940)</b>	<b>\$234,625</b>

The Audits Branch determined that under contract number P05.0024, Healthcare Services provides similar services to non-RMSC clients, and that the RMSC contract beds represent 22.73 percent and 11.96 percent of the facility's residential program for FYs 2005/06 and 2006/07, respectively. Thus, the Audits Branch allocated the adjusted salaries according to its respective allocation rate to the RMSC contract, as shown in the following table. A cost allocation is not required for contract number P06.0040 because the facility is used solely for the RMSC program.

## OVERPAYMENT CALCULATION

Position	Adjusted Salary	Percent Allocable to the RMSC Contract	Amount Allocable to the RMSC Contract	Amount Paid by CDCR	Overpayment
	a	b	c	d	e
<b>A. P05.0024 – FY 2005/2006</b>					
			(a x b)		(d – c)
Facility Manager	\$16,664	22.73%	\$3,788	\$4,012	\$224
Counseling Supervisor	13,750	22.73%	3,125	3,332	207
Counselors	63,513	22.73%	14,437	13,950	(487)
Monitors	16,235	22.73%	3,690	3,062	(628)
Secretary Admin/Asst	10,458	22.73%	2,377	\$2,334	(43)
Cook					
<b>Subtotal</b>	<b>\$120,620</b>	<b>n/a</b>	<b>\$27,417</b>	<b>\$26,690</b>	<b>(\$727)</b>
<b>B. P05.0024 – FY 2006/2007</b>					
Facility Manager	2,063	11.96%	\$247	\$344	\$97
Counseling Supervisor	2,552	11.96%	\$305	\$284	(\$21)
Counselors	7,748	11.96%	\$926	\$1,323	\$397
Monitors	3,776	11.96%	\$452	\$330	(\$122)
Secretary Admin/Asst	1,276	11.96%	\$153	\$209	\$56
Cook					
<b>Subtotal</b>	<b>\$17,415</b>		<b>\$2,084</b>	<b>\$2,490</b>	<b>\$407</b>
<b>C. P06.0040 – FY 2006/2007</b>					
Facility Manager	\$25,200	100%	\$25,200	\$21,609	(3,591)
Counseling Supervisor	11,338	100%	11,338	\$9,068	(2,270)
Counselors	25,488	100%	25,488	\$23,448	(2,040)
Monitors	26,954	100%	26,954	\$23,087	(3,867)
Secretary Admin/Asst	1,605	100%	1,605	\$3,950	2,345
Cook	6,005	100%	6,005	\$6,370	365
<b>Subtotal</b>	<b>\$96,590</b>		<b>\$96,590</b>	<b>\$87,532</b>	<b>(\$9,058)</b>
<b>TOTALS OF A, B, &amp; C</b>	<b>\$234,625</b>		<b>\$126,090</b>	<b>\$116,712</b>	<b>(\$9,378)</b>

Based on the Audits Branch's calculations, the CDCR underpaid Healthcare Services \$9,378 in salaries.

### CRITERIA:

LIBG (October 2002), page 2, Personnel Costs, states: "Salaries of personnel who are providing services for more than one contract must be charged to each contract on proportional basis and are only allowable for the time the employee is assigned to **this** contract."

LIBG (October 2002), page 3, Personnel Costs, states: "All reported salary costs shall be based on actual expenditures."

LIBG (October 2002), page 4, #2, Sub-Contractor/Consultant Costs, states: "If the Contractor intends to use a sub-contractor(s) and/or consultants, the need must be documented, including an estimated total dollar amount, when the bid proposal is submitted to CDCR."

LIBG (October 2002), page 11, Fiscal Audit, states: "Audits and reviews may be conducted at any time during the performance of the contract or during the three years following the completion of the contracting period. Actual costs incurred by the Contractor for expenses should be substantiated with appropriate source documentation. If expenditures are found to be unallowable, the Contractor's reimbursements will be recalculated and adjusted accordingly."

Employees Handbook, page 18, states: "You do not accrue paid sick leave or Paid Time Off (PTO) during the 90-day period of your introductory status. If you are a regular full-time employee and successfully complete your introductory period of employment and begin regular employment, on your 91st day of employment, you will be credited with twelve (12) hours of paid sick leave or PTO and will continue to accrue sick leave or PTO."

#### RECOMMENDATION:

- Offset the \$9,378 underpayment against the total audit overpayment.
- Ensure that employees' salaries are within the budgeted amount.
- Ensure that all charges adhere to the contract and LIBG.

#### FINDING 5: Indirect Cost Adjustment

Included in contracts P05.0024 and P06.0040 were indirect costs at the following rates:

P05.0024	
March 2006 – June 2006	21%
July 2006	20.5%
P06.0040	
December 2006 – April 2007	7%

As a result of Findings 1 through 4, the applicable indirect costs decreased by \$2,750. As shown below, the CDCR paid Healthcare Services \$41,584 for both contracts. The adjusted indirect cost is only \$38,834, resulting in an overpayment of \$2,750.

Period	Paid Indirect Cost	Audited Indirect Cost	Difference
	a	b	a - b
<b>P05.0024</b>			
Mar 2006-Jun 2006	19,588	17,469	2,119
Jul 2006	1,861	1,830	31
<b>P06.0040</b>			
Dec 2006- Apr 2007	<u>20,135</u>	<u>19,535</u>	<u>600</u>
<b>TOTAL</b>	41,584	38,834	2,750

**CRITERIA:**

LIBG (October 2002), page 8, Cost Allocation Plan, states: "If the indirect cost rate is determined to be inaccurate, the indirect cost rate will be recalculated to reflect the Contractor's supportable rate."

**RECOMMENDATION:**

Reimburse CDCR \$2,750 for overpaid indirect costs.

**FINDING 6: Five Percent Service Fee Adjustment**

Both contract numbers P05.0024 and P06.0040 included a 5 percent service fee. As a result of Findings 1 through 4, the applicable service fee decreased to \$940. As shown below, CDCR paid Healthcare Services a service fee of \$19,501 for both contracts. The adjusted service fee is only \$18,561, resulting in an overpayment of \$940.

Period	Profit Fee	Audited Profit Fee	Difference
	a	b	a - b
<b>P05.0024</b>			
Mar 2006 - Jun 2006	4,664	4,160	504
Jul 2006	454	447	7
<b>P06.0040</b>			
Dec 2006 - Apr 2007	<u>14,383</u>	<u>13,954</u>	<u>429</u>
<b>TOTAL</b>	19,501	18,561	940

**CRITERIA:**

LIBG (October 2002), page 8, Profit or Service Fee, states: "Any unallowable costs from an audit may result in a recalculation of profit or service fee costs and recovery by CDCR of the difference."

**RECOMMENDATION:**

Reimburse the CDCR \$942 in overpaid service fees.

**FINDING 7: Internal Control Weaknesses – Payroll and Timekeeping**

The review of the functions, activities, and transactions related to Healthcare Services' payroll and staff benefits preparations identified the following non-monetary findings:

- The recording of employees' job title is not consistent.
- Salaried employees worked less than the required number of hours for the month.
- Sick time was not properly documented on Payroll Journal.
- There is lack of supervisory review, as evidenced by:
  1. Errors in recording total time worked.



2. Missing signatures on timesheets.
3. Allowing employees to record the daily total time worked, rather than recording the start and end time to properly monitor the total time worked.
4. Allowing one employee to prepare timesheets for other employees.

**The above findings are explained in detail below.**

The recording of employees' job title is not consistent.

The same employee differed in comparison to the timesheet, monthly invoice, and the Controller's Listing. For example, in March 2006 one employee was listed as a counselor on his timesheet, a monitor on the monthly invoice, and a counselor in the Controller's Listing. The current Facility Manager, who was a Counseling Supervisor during the period, verified that the employee was a counselor in March 2006.

Salaried employees worked less than the required number of hours for the month.

In 5 out of the 10 months reviewed, the Audits Branch found that 14 salaried employees worked less than the required number of hours for the month. If the unrecorded hours were used in work-related activities, Healthcare Services did not provide documentation for the Audits Branch to review.

Month	Number of salaried employees who worked less than the required hours
March 2006	4
May 2006	3
June 2006	5
July 2006	1
December 2006	1
<b>Total</b>	<b>14</b>

Sick time was not properly documented in the Payroll Journal.

The timesheet and the Payroll Journal did not match in documenting an employee's sick time. The employee's timesheet indicated that he used eight hours sick time on April 12, 2006; however, the Payroll Journal recorded all the time for the pay period as regular time.

Lack of supervisory review as evidenced by:

- Errors in recording total time worked.

In reviewing the employees' timesheets, the Audits Branch found that some employees were not totaling the number of hours worked correctly. In addition, if the total time worked was totaled correctly, the total did not match with the total time recorded on the Payroll Journal, as was the case with one employee. The

employee's timesheet showed he worked 64 hours during the pay period; however, the Payroll Journal for the same pay period showed he worked and was paid for 68 hours. The Audits Branch disallowed the four hours difference in pay because the timesheet was not updated with the correction, and there was no other documentation provided to justify the four hours difference.

- Missing signatures on timesheets.

The Audits Branch's review of the employees' timesheets revealed that employees' timesheets were either missing the supervisor's signature or the employee's signature.

- Allowing employees to record the daily total time worked, rather than recording the start and end time of work and lunch to properly monitor the actual total time worked.

The Audits Branch's review of the timesheets found that most employees did not record their start and end time for work and lunch; employees only recorded the total number of hours worked for the day.

- Allowing one employee to prepare timesheets for other employees.

The Audits Branch's review of the July 2006 timesheets found that three employees' timesheets were prepared by one person, as evidenced by the identical handwriting on each timesheet.

## **CRITERIA:**

LIBG (October 2002), page 3, Personnel Costs, states: "Salaries must be adequately documented by timesheets (signed by the employee and the immediate supervisor), payroll register, payroll warrant, employee personnel file and general ledger accounts."

LIBG (October 2002), page 11, Fiscal Audit, states: "Audits and reviews may be conducted at any time during the performance of the contract or during the three years following the completion of the contracting period. Actual costs incurred by the Contractor for expenses should be substantiated with appropriate source documentation. If expenditures are found to be unallowable, the Contractor's reimbursements will be recalculated and adjusted accordingly."

Employees Handbook, page 16, Hours Worked, states: "Time worked is the time you actually spend on the job performing assigned duties....You are entitled to one-half hour for meals, and this time is unpaid."

**RECOMMENDATION:**

Where salary is based on hours worked, management should ensure that timesheets reflect actual hours worked, the total time worked for the period is correct, and signed as evidence of approval.

HEALTHCARE SERVICES, INC.						
CONTRACT #P05.0024						
COMPUTATION OF ALLOCATED COSTS						
FOR MARCH - JUNE 2006						
SCHEDULE 1						
	a	b	c	d=(b-c)x 7.74%* or 22.73%**	e	f=e-d
	FY 05/06			Allocation to	TOTAL	
	Budget	P&L	Adjustments	RMSC	INVOICE	Overpayment
					AMOUNT	
<b>A. PERSONNEL</b>						
Facility Manager	24,996	16,667	(3)	g 3,788	4,012	224
Counseling Supervisor	30,924	13,750	0	3,125	3,332	207
Counselors	112,032	64,909	(1,396)	h 14,437	13,950	(487)
Monitors	45,744	16,235	0	3,690	3,062	(628)
Secretary/Admin	29,100	10,525	(67)	i 2,377	2,334	(43)
Cook	25,477	0	0	0	0	0
Temporary Help	11,436	0	0	0	0	0
Consultants		950	(950)	j 0	0	0
Overtime	0	0	0	0	0	0
Total Staff Salaries**	279,709	123,036	(2,416)	27,417	26,690	(727)
Total Staff Benefits @ 32%	89,507	34,910	(5,856)	k 6,604	8,541	1,937
Actual Staff Benefits (24.09% of Actual Salary)						
<b>TOTAL PERSONNEL COSTS</b>	<b>369,216</b>	<b>157,946</b>	<b>(8,272)</b>	<b>34,021</b>	<b>35,231</b>	<b>1,210</b>
<b>B. SUB-CONTRACTORS COSTS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>C. OPERATING COSTS</b>						
Travel(Auto, Lodging, Meals)	12,339	6,391		1,453	0	(1,453)
Facility Lease/Rent (Rent, Taxes)	207,560	111,512		25,349	27,370	2,021
Maintenance/Repair (Building Repairs)	8,975	5,365		1,219	4,500	3,281
Communications(Postage, Professional Fees, Recruitment, T	10,249	13,066		2,970	1,277	(1,693)
Utilities	33,637	21,981	(731)	l 4,830	5,188	358
Insurance	32,162	8,222		1,869	4,294	2,425
Supplies/Expendable Equipment	25,180	3,456		786	1,235	449
Non-Expendable Equip (Exh. AA)	9,288	5,050		1,148	717	(431)
Household Supplies (Bedding, Drug Testing, Medical Supplies	20,099	17,251	(116)	m 3,895	5,378	1,483
Food Costs*	66,469	72,946		5,646	8,085	2,439
Aftercare Services	15,500	0			0	
Office Expense	0				0	
<b>TOTAL OPERATING COSTS</b>	<b>441,458</b>	<b>265,240</b>	<b>(847)</b>	<b>49,165</b>	<b>58,044</b>	<b>8,880</b>
<b>SUBTOTAL (A+B+C)</b>	<b>810,674</b>	<b>423,186</b>	<b>(9,119)</b>	<b>83,186</b>	<b>93,275</b>	<b>10,090</b>
Total Indirect Cost @ 21% of Subtotal	170,242			n 17,469	19,588	2,119
Profit or Service Fee @ 5% of Subtotal	40,534			o 4,160	4,664	504
<b>TOTAL BUDGET/PAID</b>	<b>1,021,449</b>			<b>104,815</b>	<b>117,527</b>	<b>12,712</b>
<b>Footnotes:</b>						
a. Column = FY 05/06 Budgeted Amount submitted to CDCR						
b. Column = Actual Cost according to Healthcare Services Profit and Loss Report						
c. Column = RMSC program audit adjustments						
d. Column = Actual direct/indirect costs less audit adjustments allocated to the RMSC Program at the rate of 7.74% or 22.73%.						
e. Column = Total March-June 2006 paid Healthcare Services invoices.						
f. Column = Overpayment is total invoice paid less allocated cost (e-d).						
g. The Facility Manager's salary exceeded \$.68 for each month from March - June 2006. See Finding 4.						
h. Disallowed Counselors' excess pay of \$1,396 in June. See Finding 4.						
i. Disallowed Secretary/Admin's overtime pay. See Finding 4.						
j. Disallowed the salaries of non-regular RMSC employees. Healthcare charged their salaries to Consulting Fees. See Finding 4.						
k. Disallowed excess in fringe benefits costs. See Finding 1.						
l. Disallowed utility costs. See Finding 2.						
m. Disallowed miscellaneous charges. See Finding 2.						
n. Lighthouse's applicable indirect cost based on total direct cost of \$93,275. See Finding 5.						
o. Profit Fee Adjustment. See Finding 6.						
*. Food is allocated based on actual bed days.						
RMSC actual Bed Days÷Total DTF/LTR and RMSC bed days (838÷10,831=7.74%)						
**. Allocation Rate is calculated based on capacity. RMSC Capacity÷Total Capacity (2,939÷12,932=22.73%).						
All costs with exception of food is allocated based on RMSC capacity.						

HEALTHCARE SERVICES, INC.						
CONTRACT #P05.0024						
COMPUTATION OF ALLOCATED COSTS						
FOR JULY 2006						
SCHEDULE 2						
	a	b	c	d=(b-c) x 2.63%* or 11.96%**	TOTAL	f=e-d
	FY 06/07			Allocation to	INVOICE	
	Budget	P&L	Adjustments	RMSC	AMOUNT	Overpayment
<b>A. PERSONNEL</b>						
Facility Manager	51,992	4,167	(2,104)	g 247	344	97
Counseling Supervisor	64,322	3,437	(885)	h 305	284	(21)
Counselor	233,027	21,725	(13,977)	i 926	1,323	397
Monitor	95,148	4,675	(899)	j 452	330	(122)
Secretary/Admin	60,528	1,276		153	209	56
Cook	56,778	0		0	0	0
Temporary Help	23,787	0		0	0	0
Overtime	0	0		0	0	0
Total Staff Salaries**	585,582	35,280	(17,865)	2,083	2,490	407
Total Staff Benefits @ 32%	187,386	9,690	(6,180)	k 420	797	377
Actual Staff Benefits (20.16% of Actual Salary)						
<b>TOTAL PERSONNEL COSTS</b>	<b>772,968</b>	<b>44,970</b>	<b>(24,045)</b>	<b>2,504</b>	<b>3,287</b>	<b>784</b>
<b>B. SUB-CONTRACTORS COSTS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>C. OPERATING COSTS</b>						
Travel(Auto, Lodging, Meals)	24,678	2,697		323	0	(323)
Facility Lease/Rent (Rent, Taxes)**	415,116	27,878		3,334	2,452	(882)
Maintenance/Repair (Building Repairs)	15,984	1,539		184	242	58
Communications(Postage, Professional Fees, Recruitment, Tele	20,520	2,842		340	125	(215)
Utilities	67,284	7,483		895	337	(558)
Insurance**	64,346	1,152		138	605	467
Supplies/Expendable Equipment	56,765	1,942		232	51	(181)
Non-Expendable Equip (Exh. AA)	18,576	619		74	97	23
Household Supplies (Bedding, Drug Testing, Medical Supplies)	49,916	3,701		443	963	520
Food Costs	151,908	17,450		459	918	459
Aftercare Services	15,500	0		0	0	
Office Expense					0	
<b>TOTAL OPERATING COSTS</b>	<b>900,593</b>	<b>67,303</b>	<b>0</b>	<b>6,422</b>	<b>5,790</b>	<b>(632)</b>
<b>SUBTOTAL (A+B+C)</b>	<b>1,673,561</b>	<b>112,273</b>	<b>(24,045)</b>	<b>8,926</b>	<b>9,077</b>	<b>152</b>
Total Indirect Cost @20.50% of Subtotal	343,080			m 1,830	1,861	31
Profit or Service Fee @ 5% of Subtotal	83,678			n 447	454	7
<b>TOTAL BUDGET/PAID</b>	<b>2,100,319</b>			<b>11,203</b>	<b>11,392</b>	<b>190</b>
<b>Footnotes:</b>						
a. Column = FY 06/07 Budgeted Amount submitted to CDCR						
b. Column = Actual Cost according to Healthcare Services Profit and Loss Report						
c. Column = RMSC program audit adjustments						
d. Column = Actual direct/indirect costs less audit adjustments allocated to the RMSC Program at the rate of 2.63% or 11.96%.						
e. Column = Total July 2006 paid Healthcare Services invoice.						
f. Column = Overpayment is total invoice paid less allocated cost (e-d).						
g. Salary overcharged. Healthcare did not adjust the Fac Mgr's salary to only reflect 10 days of work in 07/06. See Finding 4.						
h. Salary overcharged. Healthcare did not adjust the Counsel Supv's salary to only reflect 10 days of work in 07/06. See Finding 4.						
i. Healthcare overcharged CDCR salaries of Counselors by \$2,306. The position was budgeted for 8 positions; the FTE calc determined that a total of 11.81 Counselors worked for the period. Additionally, Healthcare did not adjust the Counselors' salary to only reflect 10 days of work in 07/06, thus, resulted in additional overpayment of \$11,672. See Finding 4.						
j. Healthcare did not adjust the Counselors' salary to only reflect 10 days of work in 07/06, thus, resulted in an overpayment. See Finding 4.						
k. Disallowed fringe benefits costs. See Finding 1.						
l. (Intentionally left blank; the previous entry has been cleared.)						
m. Lighthouse's indirect cost rate is 28.51% of which 11.96% is allocable to the RMSC Program (28.51%x11.96%=3.42%). See Finding #4.						
n. Profit Fee Adjustment. See Finding 5.						
*. Food is allocated based on actual bed days.						
RMSC actual Bed Days÷Total DTF/LTR and RMSC bed days (78÷2,971=2.63%)						
**. Allocation Rate is calculated based on capacity. RMSC Capacity÷Total Capacity (393÷3,286=11.96%).						
All costs with the exception of food is allocated based on RMSC capacity.						

HEALTHCARE SERVICES, INC.							
CONTRACT #P06.0040							
COMPUTATION OF ALLOWABLE COSTS FOR NOVEMBER 2006 - APRIL 2007							
SCHEDULE 3							
	a	b	c	d	e=(b-c+d) or a	f	g=f-e
	FY 06/07			Allowable	Allowable	TOTAL	
	Budget	P&L	Adjustments	HCS	Costs	INVOICE	
				Adjustments		AMOUNT	Overpayment
<b>A. PERSONNEL</b>							
Facility Manager	44,000	23,100		2,100	25,200	21,609	(3,591)
Counseling Supervisor	26,750	10,257	(477)	h 1,558	11,338	9,068	(2,270)
Counselor	46,090	27,466	(2,378)	i 400	25,488	23,448	(2,040)
Monitor	60,900	24,608	(518)	j 2,864	26,954	23,087	(3,867)
Secretary/Admin	23,500	3,000	(1,395)	k	1,605	3,950	2,345
Cook	25,750	6,818	(813)	l	6,005	6,370	365
Temporary Help	0	0			0	0	0
Overtime	0	0			0	0	0
Total Staff Salaries*	226,990	95,249	(5,581)	6,922	96,590	87,532	(9,058)
Total Staff Benefits @ 32%	79,447	21,372	(1,430)	s	19,942	30,636	10,694
Actual Staff Benefits (20.65% of Actual Salary)							
<b>TOTAL PERSONNEL COSTS</b>	<b>306,437</b>	<b>116,622</b>			<b>116,532</b>	<b>118,168</b>	<b>1,636</b>
<b>B. SUB-CONTRACTORS COSTS</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>C. OPERATING COSTS</b>							
Travel (Auto, Lodging, Meals)	2,000			0 2,000	2,000	0	(2,000)
Facility Lease/Rent (Rent, Taxes)*	172,800	96,876			96,876	92,760	(4,116)
Maintenance/Repair (Building Repairs)	13,000	4,383			4,383	7,176	2,793
Communications (Postage, Professional Fees, Recruitment, Telephone)	4,500	4,276	(464)	m	3,812	2,656	(1,156)
Utilities	22,500	6,841			6,841	9,387	2,546
Insurance*	20,000	3,863		p 9,721	13,584	10,755	(2,829)
Supplies/Expendable Equipment	10,750	1,258		q 1,108	2,366	5,537	3,171
Non-Expendable Equip (Exh. AA)	5,000	3,564			3,564	2,500	(1,064)
Household Supplies (Bedding, Drug Testing, Medical Supplies)	10,420	7,704			7,704	5,779	(1,925)
Food Costs	62,586	18,182	(65)	n-r 3,291	21,408	32,924	11,516
Aftercare Services	750	0				0	
Office Expense	0					0	
<b>TOTAL OPERATING COSTS</b>	<b>324,306</b>	<b>146,947</b>	<b>(529)</b>	<b>16,120</b>	<b>162,538</b>	<b>169,474</b>	<b>6,936</b>
<b>SUBTOTAL (A+B+C)</b>	<b>630,743</b>	<b>263,569</b>	<b>(529)</b>		<b>279,070</b>	<b>287,642</b>	<b>8,572</b>
Total Indirect Cost @ 7% of Subtotal	44,152				19,535	20,135	600
Profit or Service Fee @ 5% of Subtotal	31,537				13,954	14,383	429
<b>TOTAL BUDGET/PAID</b>	<b>706,432</b>				<b>312,559</b>	<b>322,160</b>	<b>9,601</b>
<b>Footnotes:</b>							
a. Column = FY 06/07 Budgeted Amount submitted to CDCR							
b. Column = Actual Cost according to Healthcare Services Profit and Loss Report							
c. Column = RMSC program audit adjustments							
d. Column = Costs for November 2006 that HCS requested, and the Audits Branch considered including FUTA and SUTA for 01/07-04/07.							
e. Column = Actual direct/indirect costs less audit adjustments or Profit and Loss Total whichever is lower.							
f. Column = Total December 2006 April 2007 paid Healthcare Services invoices.							
g. Column = Overpayment is total invoice paid less allowable cost (e-d).							
h. Disallowed \$477 salary overcharges Dec '06 - Feb '07 at \$159 each month. See Finding 4.							
i. Disallowed total salary overcharges of \$1,886 for Dec 2006 through April 2007; \$150 overtime in Jan 2007; \$342 overtime in Feb 2007. See Finding 4.							
j. Disallowed salary overcharges of \$14, and \$120 overtime for Jan 2007; \$120 overtime in Feb 2007; \$264 overtime in Apr 2007. See Finding 4.							
k. Disallowed Admin Secretary's sick leave for \$136 in Mar '07, and \$1,259 in Apr '07 administrative leave. See Finding 4.							
l. Disallowed Cook's OT pays for \$168 in Feb '07 and \$378 in Apr '07. Also disallowed \$267 excess pay in Apr '07. See Finding 4.							
m. Disallowed telephone costs. See Finding 3.							
n. Disallowed food costs. See Finding 3.							
o. Unbilled travel expenses.							
p. Property Insurance for Dec06-Jan07=\$1,188 ((\$7,132÷12x3)) and Feb-Apr07=\$2,589 ((((\$75,795-\$2,957 finance charge) x.1422)/3)).							
q. Automobile expenses and supplies.							
r. Allowed food cost that was charged to Market St.							
s. November 2006 salary that was not posted on P/L.							
t. Disallowed excess fringe benefits' costs. See Finding 1.							

# GLOSSARY

---

<b>CDC</b>	California Department of Corrections (now CDCR)
<b>CDCR</b>	California Department of Corrections and Rehabilitation
<b>DTF</b>	Drug Treatment Furlough
<b>DAPO</b>	Division of Adult Parole Operations
<b>FY</b>	Fiscal Year
<b>Healthcare Services</b>	Healthcare Services, Inc.
<b>LIBG</b>	Line Item Budget Guide
<b>LTR</b>	Long Term Residential
<b>PTO</b>	Paid Time Off
<b>RMSC</b>	Residential Multi-Service Center
<b>SASCA</b>	Substance Abuse Services Coordination Agencies